Integrating impact in investment decisions

The devastation caused by Covid-19 on the country's economy and particularly the poor socio-economic situation of many South Africans has amplified the value of impact investing, and investors realise the integral role it plays as part of their investment portfolio.

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This is according to Impact Investing South Africa (IISA), which has compiled a report not only highlighting the importance of impact investing in South Africa, but also provides valuable insights into the measurement and management practices of impact investment in South Africa.

“Our intention is to grow the impact measurement and management field so that it meets global standards and adds value to the local system, improving decision making and leading to better financial returns and better impacts,” says Dugan Fraser of Wits Centre for Learning on Evaluation and Results (Clear).

While Covid-19 has brought with it an insurmountable effect on the socio-economic conditions of many South Africans, it has also highlighted the need for responsible investing by both the public and private sectors.

“As it stands, we have to act decisively and in unity or run the risk of falling over. That means public and private sector working together with clear, measurable goals, accountable to the electorate, members, beneficiaries, clients and each other,” says Elias Masilela, IISA chairperson.

Decision making

By approaching asset managers, banks, DFIs, foundations, insurance companies, private equity and venture capital funds and pension funds, key challenges and motivations of impact investing have been outlined in the report. The challenges highlighted in the report include that impact is currently rarely integrated into decision making, that impact is seldom reported alongside financial performance and that there is a lack of shared language which has the potential to undermine investor confidence in the performance data being produced.

“The tools and frameworks outlined in this report enable investors to integrate impact into investment decision making.” says Susan de Witt of the UCT GSB Bertha Centre.

This practice is critical in order to build the market because it enables investors to account for and compare value created by different investments. This will lead investors and savers to better understand how their money is being used to benefit or harm people and the environment. Recommendations have been put forward in the report to assist in accelerating the adoption of globally accepted terminology to increase awareness. Other recommendations put forward includes improving impact measurement management practices, enabling greater harmonisation by adopting market-leading frameworks and building a culture of transparency and disclosure.

“ESG and impact are seldom reported alongside financial performance which reinforces perception that they are not core to the business strategy and performance. By encouraging regular, integrated, internal and external reporting, investors signal to the market that effects on people and planet are key to sustainability and long-term growth,” says Masilela.